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STATE OF MONTANA

OFFICE OF THE STATE AUDITOR

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 1972

and

EVALUATION OF ADMINISTRATIVE SERVICES PROGRAM



OFFICE OF THE LEGISLATIVE AUDITOR

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Fiscal Year Ended June 30, 1972

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EVALUATION OF ADMINISTRATIVE SERVICES PROGRAM

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ELECTIVE AND ADMINISTRATIVE OFFICIALS

E. V. "Sonny" Omholt

State Auditor

Roy L. Phelps

Chief Deputy State Auditor

SUMMARY OF RECOMMENDATIONS

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| Notify the Department of Administration of all equipment which is in excess of needs. | 11 |
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| Deposit all collections intact and make refunds through the regular claim warrant process. | 16 |
| Establish a standard procedure of reconciling licenses issued, examinations administered, etc., with collection deposits. | 16 |
| Consider requesting legislation to establish a forfeiture fee for insurance applications which are disapproved or withdrawn. | 17 |

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MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR



G. DEAN REED, C.P.A.
DEPUTY LEGISLATIVE AUDITOR

STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59601

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Office of the Montana State Auditor as of June 30, 1972, and the related statements of operations as set forth in the table of contents in this report, for the year then ended, except as described below. Our examination was made in accordance with generally accepted governmental auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements have been prepared on a modified accrual basis of accounting and accordingly present the financial position in accordance with generally accepted accounting principles applicable to governmental units. Prior to 1971-72, the state used the cash basis of accounting for state operations.

The office has not maintained formal accounts for accounts receivable or fixed assets. Informal records for fixed assets showed a total balance of \$65,789 as of June 30, 1972, but insufficient controls and supporting documentation preclude a timely determination of the accuracy of the balance. Office records are not maintained in such a manner as to estimate the amount of accounts receivable. Because of the absence of accounting for these two items, the office's balance sheet does not reflect amounts due for

services rendered or the investment in fixed assets at June 30, 1972.

Our audit did not include an examination of the transactions in the central payroll accounts in the Revolving Fund, except administrative costs. These transactions consist of amounts transferred in by state agencies and disbursed by the State Auditor's Office to state employees for net salary payments and other recipients such as the federal and state income tax agencies, state retirement systems, insurance companies, etc. As shown by Exhibit "B" on page 43, these transactions totaled over \$70,000,000 in 1971-72.

Our audit also did not include an examination of the transactions in the State Auditor's account in the Agency Fund. These transactions will be reported upon in a separate audit report to be issued by our office.

Because of these limitations, we have no opinion to express on the State Auditor's Office accounts in the Revolving Fund or Agency Fund.

In our opinion, the accompanying financial statements for the General Fund, Earmarked Revenue Fund, Federal and Private Revenue Fund, and Federal and Private Grant Clearance Fund, except for the balance sheet for accounts receivable and fixed assets, present fairly the financial position of the Office of the State Auditor as of June 30, 1972, and the results of its operations for the year then ended, in conformity with generally accepted governmental accounting principles.

We submit the financial statements listed in the table of contents together with the following comments. In addition, the full text of the State Auditor's reply is included following the financial statements.

COMMENTS

GENERAL

The State Auditor in Montana is a constitutional official of the Executive Branch of State Government. The State Constitution - both the old Constitution and the recently adopted new Constitution, effective July 1, 1973 - provide that the State Auditor be elected at general elections to serve a four-year term and to perform such duties as prescribed by the State Constitution and law. The old Constitution prescribed no specific duties of the State Auditor. In the new Constitution, the only specific duty designated is that the State Auditor is a member of the State Board of Land Commissioners.

By statute, the Office of the State Auditor has been assigned and still retains the following functions:

Insurance Regulation - Regulation of the insurance industry in the state.

Investment Regulation - Administration of the Montana Securities Act.

Certain fiscal control functions - The main duties are the physical control, signing, and distribution of state warrants, and administration of the state central payroll system.

Until September 1, 1972, the State Auditor, in his capacity as commissioner of insurance, also had the statutory responsibility for administration of the office of the state fire marshal. This function consisted of inspecting public, business, and industrial buildings within the state for safety from fire and otherwise administering the state fire prevention laws. This function was transferred to the State Department of Justice, effective September 1, 1972, pursuant to the Executive Reorganization Act of 1971, although the actual transfer of resources and records was not made until May 1, 1973.

The 1971 Reorganization Act provided for the transfer of administrative operations of the State Board of Hail Insurance to the Office of the State Auditor. However, the resources and records of the board were not transferred to the State Auditor's Office, and the auditor has not become integrally involved in the board's administrative operations. The 1973 Legislative Assembly has subsequently passed legislation (Chapter 395, Laws of 1973) to transfer the responsibility for the board's administrative operations from the State Auditor's Office to the State Department of Agriculture, effective July 1, 1973.

During the period covered by this report, the programs administered by the State Auditor's Office consisted of administrative support, fiscal management and control, insurance regulation, investment regulation, and fire prevention. The office is located in the Capitol Building in Helena, and as of June 30, 1972, employed 41 employees. As shown by Exhibit "D" on page 47, the office had recorded expenditures of \$542,255 for operations during 1971-72. Exhibit "B" on page 43, and supporting exhibits show that the office collected and distributed over \$8,000,000 in revenue and \$70,000,000 in administering the central payroll operation.

ORGANIZATION OF ADMINISTRATIVE SUPPORT PROGRAM

The organizational structure of an agency should be integrated and unified, functions and duties should be allocated to units and personnel on the basis of similarity, and clear lines of responsibility and communication should be drawn. The organizational structure of the administrative support program can be improved and services to the other programs expanded and improved.

Although organized into five programs, clear lines of authority and communication are not defined in writing. The State Auditor's Office does not have a formal organization chart, a basic management tool. The duties and

responsibilities of the various employees are not defined by written job or position descriptions. Various accounting and clerical duties and tasks are performed by the employees, but the supervisory authority over these employees is not evident nor clear.

The responsibility of an administrative support program normally includes the performance of various services, such as accounting, cash receiving and depositing, billing, purchasing, etc., for the other programs. Yet, as pointed out in other sections of this report, this is not being accomplished in the State Auditor's Office. For example, cash receipting and depositing is accomplished by personnel in both the administrative support and fiscal management and control programs. The other programs' personnel are entirely responsible for the billing function, whereas this should be handled by administrative support personnel. The accounting for the majority of the cash receipts is performed by an employee paid from the fiscal management and control program.

Efficient use of personnel may require employees to perform duties relating to different programs, but these responsibilities should be clearly defined and the costs relating to these duties should be charged to the appropriate programs. Clear lines of responsibility and authority assist management in the training and evaluation of staff members, and in identifying and avoiding duplication of effort. The State Auditor's Office should prepare organization charts and job descriptions, and evaluate the present organization structure so as to assign the performance of the normal administrative services to the administrative support program and develop clear lines of responsibility, authority, and communication.

RECOMMENDATION

We recommend that the State Auditor's Office:

- 1. Prepare formal organization charts depicting the functions and levels of supervisory responsibility and authority.*
- 2. Prepare up-to-date job or position descriptions for all employees.*
- 3. Evaluate its present organizational structure based on 1 and 2 above to determine if there is a need for an internal reorganization and reassignment of the various administrative services.*

ACCOUNTING SYSTEM

Like many other state agencies, the State Auditor's Office has historically not maintained sufficient records to adequately account for its activities. No general ledger control accounts were maintained, the double entry system of accounting was not recognized, and periodic comprehensive financial reports were not prepared to effectively demonstrate the office's accountability.

As of June 30, 1972, the State Auditor's Office did not have a system of accounting and financial reporting to adequately account for its activities. It did not maintain a general ledger, the basic accounting record of any business or governmental agency, nor did it utilize the double entry system--the only recognized method of accounting. Annual or monthly trial balances or balance sheets were not prepared to reflect the assets, obligations, or fund balances of the agency.

With the implementation of the Statewide Budgeting and Accounting System in July 1972 (hereafter called SBAS), the elements of an adequate accounting system are available to the State Auditor's Office. The new system provides for double entry accounting, general ledgers by accounting

entity, appropriation control, accumulation of cost by program, etc. The State Auditor's Office is using SBAS, but for the system to produce accurate information, the user agency must input the basic data on a timely basis. In some areas, the State Auditor's Office can increase its use of the new system and improve internal control.

Accounts Receivable

The State Auditor's Office does not record receivables in its general accounting records. The control and recording of the receivables is fragmented throughout the various programs. The receivables due and collected by the State Auditor's Office are derived from a variety of sources, but the overall receipts due and collected are significant.

Proper application of SBAS will not only provide for the recognition of the receivables in the formal accounting records, but will also aid in the control of receivables by assuring that all amounts due are collected.

The receivables due the State Auditor's Office generally fit four main categories: (1) taxes on insurance premiums collected in the state, (2) annual license fees for investment and insurance salesmen and agents, (3) annual filing and registration fees from insurance and investment companies, and (4) amounts due the payroll revolving fund from other state agencies.

The following table shows the employees responsible for billing and recording the receivables.

| <u>Employee Position</u> | <u>Nature of Receivable</u> |
|--------------------------|--|
| Chief Insurance Examiner | Insurance premium taxes and company filing fees |
| Insurance Examiners (2) | Insurance agent, adjuster, etc. and investment salesmen licenses |

Employee PositionNature of Receivable

Investment Examiner

Investment broker/dealer and
advisor licenses; company filing
and registration fees

Accounting Clerk

Central payroll

As shown above, the billing and recording functions are performed by several employees in the State Auditor's Office. None of these employees are a part of the administrative support services program. A central billing function would relieve program personnel from the performance of these duties and provide an opportunity for consolidated billings.

RECOMMENDATION

We recommend that the State Auditor's Office:

- 1. Establish a central billing function.*
- 2. Utilize the statewide budgeting and accounting system
to record and control all receivables.*

Fixed Assets

The State Auditor's Office has not established adequate control over the office's equipment and other fixed assets. The office prepared a summary inventory report which indicated a balance of \$65,789 in fixed assets as of June 30, 1972. However, this report was inaccurate, not based on prescribed procedures, and these assets are not formally accounted for as they should be.

The only record of fixed assets maintained by the State Auditor's Office is a register which provides a description of the asset, the date of acquisition, if known, an identifying tag number, and the actual or estimated cost. Additions are added to the register by reviewing purchase orders at year-end, and there is no established procedure to insure that deletions are properly recorded. These procedures do not result in accurate accountability.

To establish effective accountability and control over fixed assets, control accounts need to be established and maintained on a current basis and reconciled to detail subsidiary accounts. The detail records should identify each fixed asset, its cost or other assigned value, location, employee having custody, and other relevant historical data. In this regard, we noted several deficiencies regarding the office's fixed asset system.

- (1) Control Accounts in the general ledger have not been established.
- (2) Acquisitions and deletions are not recorded on a current and systematic basis.
- (3) The existing register does not identify the location, or division and employee responsible for the safekeeping of the fixed assets.
- (4) Although each asset on the inventory register was assigned an identifying tag number, the tags were not affixed to all items.
- (5) The last physical inventory was taken in 1969. Management Memo 70-17, issued in June 1970, provides that each state agency is to take a physical inventory each year.
- (6) Over 150 items with values under \$100 each are still recorded on the existing register. Elimination of these items from accountability, as provided by Management Memo 70-17, would make the accounting for fixed assets a less involved task.
- (7) Fixed assets on loan from other agencies and employees were not recorded.

The SBAS is designed to provide for accountability of the state's investment in fixed assets in the general and subsidiary ledgers. However, in order to fully utilize SBAS, the State Auditor's Office must update and improve its current system, as provided for in Management Memo 70-17.

RECOMMENDATION

We recommend that the State Auditor's Office:

- 1. Take a physical inventory of all fixed assets as defined in Management Memo 70-17 and reconcile the inventory to the present fixed asset records, recording any additions or deletions.*
- 2. Establish a system to record future acquisitions and deletions on a current basis.*
- 3. Examine all fixed assets to assure that the items are properly tagged.*
- 4. Establish the necessary control accounts and subsidiary documentation to control and account for each fixed asset.*

UTILIZATION AND DISPOSAL OF STATE-OWNED ASSETS

During our inventory of fixed assets under the control of the State Auditor's Office during the 1971-72 fiscal year, two pieces of equipment were located at the residences of two employees of the Fire Marshal's Office. In one case, we were advised that a typewriter was used at home to type correspondence for the Fire Marshal program during the time when the office was being relocated. A followup inventory after the office was relocated, disclosed that the typewriter had not been returned to the office. State-owned property should not be used for personal business and such a practice leaves the agency open to criticism. If a state employee needs state-owned

equipment at his residence, proper written approval, based on valid justification, should be obtained and the equipment should be returned as soon as the need is met.

In the second case, an adding machine was being used at home by another employee. We were advised that when the office purchased a new adding machine, the vendor would not allow a trade-in for the old machine, and the employee was permitted to take the machine home.

Section 82-1914, R.C.M. 1947, provides that:

"The state controller shall have exclusive power, subject to the consent and approval of the governor, to sell, or otherwise dispose of, or to authorize the sale or other disposition of, all materials and supplies, service, equipment, or other personal property of every kind now owned by the state of Montana"

Under this statute the state controller, now the director of the Department of Administration, can make available excess property to other state agencies.

Accordingly, the equipment in question should be returned to the Fire Marshal's Office and the Department of Administration should be notified if the equipment is excess to the needs of the office.

RECOMMENDATION

We recommend that the State Auditor, in consultation with the Department of Justice:

- 1. Require the employees to return all state-owned equipment presently located in their residences to the appropriate offices.*
- 2. Notify the Department of Administration of all equipment which is currently excess to the needs of the offices.*

CASH RECEIPTS/REVENUE

The State Auditor's Office is responsible for the collection and depositing of various revenues due the State of Montana. The following schedule reflects collections deposited by the State Auditor's Office during 1971-72.

| <u>Source of Revenue</u> | <u>Amount</u> | |
|---|---------------|---------------------------|
| Processed through Clearance Account: | | |
| Insurance Program | \$6,115,750 | |
| Investment Program | 128,305 | |
| Fire Marshal Program | 1,401 | |
| Forest Service Grant | 1,920,943 | |
| Other | <u>290</u> | |
| Subtotal | | \$8,166,689 |
| Direct Deposit to Funds: | | |
| Emergency Employment Act Fund | 11,855 | |
| Veterans' Administration Reim- bursement | <u>71,596</u> | <u>83,451</u> |
| Total | | <u><u>\$8,250,140</u></u> |

The revenues collected through the insurance program include company and individual license fees, annual company filing fees, and taxes on insurance premiums.

Similarly, revenues collected through the investment program include fees for the registration of securities to be offered for sale in the state, fees for the registration of individuals doing business in the state, and annual filing fees. A more detailed schedule of both programs' revenue sources is shown by Exhibit C, on page 46.

The revenue collected through the fire marshal program is for annual fees, ranging from \$5 to \$30, on each building or facility used to store or keep explosives.

The Federal Emergency Employment Act moneys were received through the Employment Security Division and are used to pay the salaries of certain employees in the State Auditor's Office.

Receipts from the Veterans' Administration are reimbursements for the Veterans' Home, which is presently administered by the Department of Institutions.

The Forest Service grant is received by the State Treasurer's Office and distributed to the counties by the State Auditor's Office, based on the acreage of forest service land in each county.

Improvements can be made in the present system for handling cash receipts and accounting for licenses as discussed in the following comments.

Cash Handling System

The present cash collection and depositing system results in several deficiencies, including a lack of internal control, inadequate recordkeeping, and possible inefficient use of personnel.

Current procedures of the State Auditor's Office include sending checks received to program personnel along with attached documents. Forwarding cash receipts to program personnel responsible for billing is a basic weakness in internal control. Program personnel can be notified of a cash collection by forwarding a copy of the receipt notice or other document submitted by the payor. The handling of cash receipts should be kept to a minimum and collections should be deposited as soon as possible. Identification of the type of revenue and verification of the amounts collected can be performed by program personnel, but uniform procedures should be established for the receipting, depositing, and recording of all revenues with the support services program. One cash receipt system should be established.

Reconciliation of receipts and deposits by an employee independent of the system is another feature of a good cash receipt system to assure that all receipts are properly deposited. In the State Auditor's Office, reconciliation of receipts and deposits is performed by the same employee that receives and deposits collections.

The cash receipt system should be evaluated and reorganized to provide for the centralized depositing and recording for all types of collections, proper segregation of duties, and periodic reconciliation of deposits and receipts. Such a system should minimize cash handling, fix responsibility, provide for immediate deposit of collections, and improve internal control. In this regard, the SBAS manual, Chapter 2-1200.00, sets forth suggested plans, minimum requirements, and additional controls in establishing a cash receipt system.

RECOMMENDATION

We recommend that the State Auditor's Office establish a centralized cash receipt system incorporating the minimum and additional control procedures set forth in the statewide budgeting and accounting system manual, Chapter 2-1200.00.

Depositing of License Fees

All moneys received should be deposited in the state treasury intact. This practice is not always followed by the State Auditor's Office. For example, on occasion, money received with an application for an individual insurance license is returned to the insurance company.

Moneys are returned and not deposited intact resulting from two unwritten policies in the State Auditor's Office. First, the State Auditor's Office requires the sponsoring insurance company, as opposed to the individual, to submit a check for the proposed agent's license and examination fee. We

were advised that this precaution is taken to assure that the check received will be honored. Second, the State Auditor's Office requires separate checks and "request for agent licenses" forms to be submitted for each applicant. We were advised that this policy is necessary so that when applications are withdrawn or refused the checks can be returned.

No valid reason exists for not accepting negotiable instruments, including personal checks. The office can establish a policy of requiring payment a sufficient time in advance to assure the checks clear before issuing a license, administering an examination, etc.

The second policy is also unnecessary and creates an additional workload. This policy in fact is contrary to the written instructions provided the insurance company on the "Request for Agent's License" form. The form provides the following instruction:

"List in alphabetical order - Last name first."

The form also provides space to list at least six applicants. No valid reason exists for such a policy. In the event that applications are withdrawn or rejected, refunds can be obtained through the normal claim process. Intact depositing of all receipts would enable complete records of all transactions to be recorded and documented in the system. Presently, it is difficult to identify the refunds or the reasons the refunds were made.

RECOMMENDATION

We recommend that the State Auditor's Office:

- 1. Rescind its two unwritten policies of requiring companies to pay all new license and examination fees and submission of separate checks and forms for each applicant.*

2. *Accept personal and insurance company checks as payment for amounts due.*
3. *Deposit all collections intact and make refunds through the regular claim warrant process.*

Reconciliation of Licenses Issued and Revenue

As shown in Exhibit C, on page 46, the State Auditor's Office collects fees for many different purposes. The fees collected represent licenses or certificates issued or renewed, examinations taken, etc. The present accounting system does not always provide the necessary records, without extended verification, to reconcile the licenses issued with the amounts collected, deposited, and reported. Normally, licenses issued multiplied by the fee charged is equal or reconcilable to the amounts collected and deposited. Reconciliation provides management with assurance that all amounts collected are deposited and the fees are properly categorized for accounting and reporting purposes.

We noted many examples of conflicting numbers of licenses issued and examinations administered included in the State Auditor's annual report and records. The licensing system and procedures need to be redesigned to adequately account for each license by category. This could take the form of a uniform license and renewal form, which would include a section indicating the type of license or different license and renewal forms for each category. Regardless, the system should provide accurate data for reconciliation, recording, and reporting.

RECOMMENDATION

We recommend that the State Auditor's Office establish a standard procedure of reconciling licenses issued, examinations administered, etc., with collection deposits.

Application Fees

Insurance companies applying for licenses must submit the applicable license fees along with their applications. In those instances where the applications are approved, the license fee collections are transferred to the applicable fund. When the applications are disapproved, the fees are refunded.

Presently the State Auditor's Office does not retain any fees for disapproved insurance company license applications. A standard procedure often used by regulatory agencies is to require an application fee for original licenses. The application fee is retained regardless of approval or disapproval to cover the cost of processing the application. We believe that the State Auditor's Office should consider establishing a policy requiring the forfeiture of all or a portion of the fee if the application is disapproved. The forfeiture would not only recover some of the administrative costs incurred in processing the application, but may also discourage unqualified companies from submitting applications. Such a policy may require statutory authority, but it would not be without precedent since the registration of securities under the investment program provides for a forfeiture of a portion of the fee if the registration is disapproved or withdrawn.

RECOMMENDATION

We recommend that the State Auditor's Office consider requesting legislation to establish a forfeiture fee for insurance applications which are disapproved or withdrawn.

Veterans' Administration Reimbursement

Section 80-302, R.C.M. 1947, which was repealed in 1963, required the State Auditor's Office to receive and deposit all federal moneys for the

Montana Veterans' Home. Presently, the Veterans' Home is under the administration of the Department of Institutions. Section 80-1804, R.C.M. 1947, states that the Department of Institutions may receive and deposit moneys from the Federal Government for the benefit of the Veterans' Home. We were advised that no federal restrictions prohibit the Department of Institutions from receiving and depositing the federal moneys.

The federal moneys are used to help support the operations of the Veterans' Home, and the calculation is based on the number of patient days. The Department of Institutions should be responsible for receiving and depositing the federal moneys. This would place full control of the moneys under the department responsible for the administration of the Veterans' Home and provide for the complete and accurate recording and reporting of the operations of the Veterans' Home.

RECOMMENDATION

We recommend that the State Auditor's Office arrange to transfer the receipting and depositing of federal moneys for the Veterans' Home to the Department of Institutions.

CASH DISBURSEMENTS

The State Auditor's Office cash disbursing function has two basic objectives. One is the payment of expenditures of the internal operation of the agency, and the other is to distribute moneys to local governmental agencies and entities. The following schedule shows the disbursements by category for 1971-72.

| <u>Type of Disbursement</u> | <u>Amount</u> |
|--|--------------------|
| Personal Services, Operation and Capital | \$ 542,255 |
| Payments for the benefit of Fireman and Policeman Funds | 847,514 |
| Payments from Forest Reserve Fund to Counties | <u>1,920,943</u> |
| Total | <u>\$3,310,712</u> |

The disbursements for personal services, operation, and capital represent the expenses incurred by the agency for such items as payroll, contract services, travel, communications, etc.

The disbursements for the benefit of the fireman and policeman funds represent three distributions required by statute. The first distribution is to the city treasurers for the benefit of the eligible fire department relief associations in each city. A like amount is also distributed to the city treasurer for the benefit of the police department. The third distribution is to the Volunteer Fireman's Compensation Account in the Earmarked Revenue Fund administered by the State Workmen's Compensation Division.

The disbursement to the counties represents distribution of forest service moneys from the Federal Government for the benefit of the common school funds and the county road funds. The distribution is based on the amount of federal acreage in the particular counties, which is calculated and provided to the State Auditor's Office by the U. S. Forest Service. The State Auditor's Office merely processes the claims for payment in accordance with the forest service calculations.

Our review of the State Auditor's Office cash disbursement system disclosed several areas where improvements can be made. These are discussed in the following comments.

Recording and Control of Cash Disbursements

The recording and control of cash disbursements to pay operating expenses, make distributions to local governmental units, or make refunds, are accomplished by various personnel in the program areas. The following schedule shows the type of disbursement and the program unit recording and controlling the disbursement.

Type of DisbursementProgram Unit

Operating Expense

Administrative Support

Insurance Refunds

Insurance

Investment Refunds

Investment

Distribution to Police and Fire Departments

Insurance

Employees' and Employers' Benefits

Fiscal Management & Control

In each of the cases shown above, different employees control the disbursements and maintain separate cash disbursement records. The employees in the programs are responsible for calculating the amount of the disbursement, recording the disbursement in their register or cash disbursement record, preparing the claim, and processing the claim for payment. Separate files are maintained, showing the supporting documentation, a copy of the claim, accounting records, and related information, for each type of disbursement. These files are located in separate program units.

This situation precludes the administrative support services program from fulfilling its required function of providing accounting and processing services to the other programs. The accounting services provided by the administrative support program should include a cash disbursement record of all transactions processed. The files containing supporting documentation should be centrally located. If it is going to provide accounting services, the information, records, and supporting documentation must be readily available to reconcile to SBAS and answer questions which may arise. In addition, the combining of the recordkeeping duties may identify instances where records that are being maintained are unnecessary or duplicate other records. This is especially true considering the increased services that are or will be available through SBAS. The centralizing of the record-keeping and processing of claims also increases the control over expenditures.

RECOMMENDATION

We recommend that the State Auditor's Office evaluate the cash disbursement system and make the necessary changes to provide for central processing, recording, and filing, and the proper segregation of duties between calculating payments, issuing claims, and recording transactions.

Allocation of Data Processing Costs

The State Auditor's Office incorrectly allocated data processing costs to its programs in 1971-72. The correct allocation would have resulted in an overexpenditure of appropriations. The following schedule reflects by programs the amounts billed by the Data Processing Bureau and the allocation of these costs to the various programs for 11 months - July 1971 through May 1972. The charges for June 1972, are discussed under the next sub-caption.

| <u>Program</u> | <u>Amount Charged Based on Work Performed</u> | <u>Amount Allocated By State Auditor's Office</u> | <u>Over or (Under) Allocated</u> |
|--------------------------------|---|---|--------------------------------------|
| Fiscal Management and Control: | | | |
| Central Payroll | \$ 64,509 | \$ 66,259 | \$ 1,750 |
| Other | 42,706 | 23,829 | (18,877) |
| Fire Marshal | 50 | 7,749 | 7,699 |
| Insurance | 1,341 | 8,258 | 6,917 |
| Investment | -0- | 1,597 | 1,597 |
| Administrative Support | <u>-0-</u> | <u>914</u> | <u>914</u> |
| Total | <u>\$108,606</u> | <u>\$108,606</u> | <u>\$ -0-</u> |

As shown above, the fiscal management and control program incurred costs of \$18,877, which were allocated to and absorbed by the other programs. The program appropriation balance for the fiscal management and control program

as of June 30, 1972, was \$1,063. As a result, if the data processing costs had been correctly allocated, the appropriation would have been overexpended by \$17,814.

The availability of spending authority was the primary reason offered for allocating the costs in the manner discussed above. Program appropriations allow the Legislature the authority to set priorities and control the spending levels for each program under consideration. Incorrect allocation of program costs not only defeats the purpose of program appropriations, but also makes it difficult to obtain accurate historical cost data for succeeding years' budgets and appropriations. In such instances, one must examine each individual transaction rather than year-end summary data provided by the accounting system to determine actual program costs.

Costs should be allocated and charged to the correct program. Transfers from one program to another to pay expenses should be justified through the established budget amendment process.

RECOMMENDATION

We recommend that the State Auditor's Office allocate and charge costs to the correct program and use the established budget amendment process to transfer spending authority between programs.

Expenditures from 1972-73 Appropriations

Data processing costs, totaling \$12,768 incurred by the State Auditor's Office during June 1972, were paid from 1972-73 appropriations. The payment was made from two appropriations as indicated in the following schedule.

| <u>Appropriation Description</u> | <u>Month/Year Paid</u> | <u>Amount</u> |
|----------------------------------|------------------------|-----------------|
| Central Payroll | February 1973 | \$ 8,146 |
| Management and Control | August 1972 | <u>4,622</u> |
| Total | | <u>\$12,768</u> |

The 1971-72 appropriation balances for central payroll and management and control were \$ -0- and \$1,063 respectively. We were advised that the expenditures were not accrued at June 30, 1972, and the payments were made using 1972-73 appropriations because the 1971-72 appropriation balance was insufficient to pay the cost.

Although the specific program appropriation balances were insufficient to accrue the expenditures from these appropriations, the necessary spending authority could have been requested through the budget amendment process. As shown on Exhibit "D" on page 47, the total appropriation balance from programs financed by the General Fund was \$7,954. A budget amendment should have been requested to transfer the other program appropriation balances, i.e., insurance, investment, etc., to the fiscal management and control appropriation. Then, if approved, the \$4,622 data processing costs applicable to the fiscal management and control program could have been accrued. Similarly, a budget amendment could have been requested for the central payroll system which is financed from the Revolving Fund.

The purpose of accruing expenditures is to recognize the costs in the year incurred. Procedures followed by the State Auditor's Office resulted in an understatement of 1971-72 program costs by at least \$12,000. In addition, the accounting records are inaccurate and cannot be used, without reconciliation, for budgeting or reporting purposes.

This demonstrates a weakness on the part of management to control its appropriations. Appropriations should be monitored throughout the year

and costs reduced or the necessary spending authority sought if the appropriation is in danger of being overspent. The procedure used to resolve the problem at year-end was incorrect and did not follow statutory requirements or the guidelines of SBAS.

RECOMMENDATION

We recommend that the State Auditor's Office:

- 1. Establish procedures and fix responsibility for controlling the appropriations.*
- 2. Follow the guidelines established by SBAS regarding accrued expenditures and budget amendments.*

Long Distance Telephone Calls

We noted that one employee of the State Auditor's Office was making long distance telephone calls to and from his residence at state expense. No records were maintained to show the basis for the calls. We recognize that on occasion calls to employees' residences may be of a business nature, but this should be documented. The telephone calls in question were placed from out of state to the employee's residence or from the residence to out of state locations where he was traveling.

Since the Auditor's Office did not require its employees to record long distance telephone calls, records are not available to document the purpose or reason for the specific calls. The State Auditor's Office does not review the telephone billings to determine whether long distance telephone calls were for state business and, therefore, a proper state expense.

Long distance telephone calls should be recorded. The record should include the names of the persons called and placing the call, the reason for the call, the estimated time, etc. This record should subsequently

be compared to the billings and reviewed to assure that the calls were for state business.

RECOMMENDATION

We recommend that the State Auditor's Office:

- 1. Require all employees to record long distance telephone calls on a form designed for that purpose.*
- 2. Establish review procedures to verify that long distance telephone calls billed the state are for state business.*

Conflicting Statutes Regarding the Distribution to Fire and Police Department Pension Funds

Numerous statutes relate to the distributions to the firemen's and police pension relief funds, which should be clarified to assure that the distribution is properly administered and in compliance with statutory requirements.

Presently, the State Auditor's Office deposits all insurance license fees and premium taxes into a clearing account and subsequently transfers the money to either the General Fund or Earmarked Revenue Fund. The Earmarked Revenue Fund is used to make the distributions to the firemen's and police pension funds. The transfers from the clearing account to the earmarked revenue accounts are made without specific identification as to the source of the revenue, i.e., insurance taxes, licenses, or fees. The laws relating to the collection, deposit, and distribution of the license fees and premium taxes set forth certain requirements which are in conflict with each other and appear to be in conflict with the present distribution methods used by the State Auditor's Office. The specific statutes are:

Section 20-2726, R.C.M. 1947.

Section 40-2821, R.C.M. 1947.

Section 11-1919, R.C.M. 1947.

Section 11-1920, R.C.M. 1947.

Section 11-1834, R.C.M. 1947.

The present statutory provisions are confusing and difficult to administer. The sections regarding the depositing of license fees to the General Fund and the use of the same fees for payment to fire departments of first and second class cities need to be clarified. Similarly, the other provisions also need to be clarified.

RECOMMENDATION

We recommend that the State Auditor's Office seek legislation to eliminate the conflicting statutory provisions and clarify others relating to the distribution to fire and police pension funds.

PAYROLL

The State Auditor's Office payroll is processed through the state's central system on a bi-weekly basis. As of June 30, 1972, there were 41 employees assigned to five program areas. The following schedule reflects by program the number of employees and the costs incurred for salaries and employee benefits during 1971-72.

| <u>Program</u> | <u>Number of Employees</u> | <u>Costs</u> |
|------------------------|--------------------------------|------------------|
| Management and Control | 14 | \$ 86,250 |
| Insurance | 12 | 100,626 |
| Investment | 3 | 27,982 |
| Fire Marshal | 7 | 55,350 |
| Administrative Support | <u>5</u> | <u>51,426</u> |
| Total | <u>41</u> | <u>\$321,634</u> |

Our review of the State Auditor's Office internal payroll system disclosed several areas where the system can be improved, as follows.

Allocation of Payroll Costs

Accurate allocation of all significant costs to the programs is important and necessary because it affects the accounting, budgeting, reporting, and appropriating of resources for the operations. Proper accounting of program costs is needed to construct a budget for each program on the most accurate basis possible. If the costs are not properly allocated to the programs, the use of historical cost data will not result in realistic program budgets. This, in turn, affects the appropriations provided by the Legislature, since the State Auditor's Office receives its appropriations by program. Improper allocation of the payroll costs also results in inaccurate reporting of program costs to the Legislature and the general public. The annual report issued by the State Auditor's Office and the Governor's Executive Budget reflect the cost of operation by program. If the costs are not properly allocated to the programs, the users of these reports cannot rely on the financial information provided. The proper allocation of payroll costs is particularly significant in the State Auditor's Office, since salaries and employee benefits constituted 53.1 percent of the total cost of operations during 1971-72.

The State Auditor's Office assigns all employees and the related payrolls to one of the five programs at the start of the fiscal year. The following table shows examples of employees whose salaries were charged to one program but all or a percentage of their duties were performed for other program(s). The percentages were estimated by the employees involved.

| <u>Employee Title</u> | <u>Annual Salary</u> | <u>Program Charged</u> | <u>Program Worked</u> | |
|------------------------|----------------------|------------------------|------------------------|-------------------|
| | | | <u>Title</u> | <u>Percentage</u> |
| Insurance Investigator | \$8,399 | Insurance | Fiscal Mgmt. & Control | 100% |
| Accounting Clerk | 5,820 | Fiscal Mgmt. & Control | Admin. Services | 100% |
| Insurance Examiner | 7,632 | Insurance | Insurance Investment | 90% 10% |
| Investment Examiner | 7,777 | Investment | Investment Insurance | 92% 8% |

The State Auditor's Office does not maintain time and attendance records which would show the amount of time spent by employees performing duties in other programs. The time and attendance records only indicate when the employees were taking time off for sick, annual, and compensatory leave. The first step in designing a system to accurately allocate payroll costs to the proper programs is the establishment of a time and attendance system, which would document the time expended by the employees by the nature of the duties performed in each program area. With this basic source of information, the central payroll system can be used to record and report the payroll costs by program. The central payroll system can distribute employees' salaries to more than one program. This is accomplished by indicating the division of the employees' time on the pre-payroll register.

The establishment of a time and attendance system, as discussed above, and the utilization of the central payroll system will improve the accuracy of the accounting and reporting of program costs and assist in the development of more realistic budgets.

RECOMMENDATION

We recommend that the State Auditor's Office:

- 1. Expand the time and attendance reporting system to document the time spent by the employees in the various programs.*
- 2. Utilize the central payroll system to record and report the accurate allocation of payroll costs by program.*

Minimum Wage Law Requirements

Section 41-2303(b), R.C.M. 1947, provides that, with certain exceptions:

"No employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1½) times the hourly wage rate at which he is employed."

Any person employed in a bona fide executive, administrative, or professional capacity is excluded from the minimum wage requirements, including the one cited above. The Commissioner of Labor has set forth in his regulations, criteria for defining executive, administrative, and professional employees.

The State Auditor's Office does not pay overtime to employees working in excess of 40 hours per week. Rather, the employees accrue compensatory time. Several employees who were working in excess of 40 hours per week did not appear to meet the criteria defining executive, administrative, or professional employees and would not be excluded from the minimum wage law. For example, accounting clerks and insurance and investment examiners work at various times in excess of the 40-hour week and receive compensatory time rather than being paid at a rate one and one-half times their normal pay rate. Other employees working overtime who, because of their position and duties, may or may not meet the criteria for administrative, executive, or professional exclusion established by the Commissioner of Labor.

The State Auditor's Office has not requested the Commissioner of Labor to assist in the classification of the employees working in the office. A determination should be made to clarify which employees should be included and excluded from the statutory minimum wage requirements.

RECOMMENDATION

We recommend that the State Auditor's Office, in consultation with the Commissioner of Labor, determine which of the employees should be included or excluded from the minimum wage statutory provisions and requirements and implement the necessary procedures to assure that the requirements are met.

Employees' Working Hours

Business and government operations usually pay employees for hours worked in the performance of their duties. Most employees in state government are scheduled to work 40 hours per week and eight hours a day from 8:00 A.M. to 5:00 P.M., with an hour lunch break from 12:00 noon to 1:00 P.M. This is especially the case for office employees such as those employed in the State Auditor's Office.

During our audit, several employees in the State Auditor's Office were working seven and one-half hours a day but were being compensated for eight hours. We noted that several employees left work at 11:45 A.M. for the lunch break and at 4:45 P.M. at the end of the day. These employees reported to work at 8:00 A.M. and at 1:00 P.M. after the noon lunch break. Accordingly, the employees did not return to work early to make up for the time taken off. Compensatory or annual leave was not charged, and the employees were paid as though they worked eight hours a day.

As a result, employees were compensated for time they were not working. We did not attempt to identify, over any significant period of time, the number of employees involved. But, for each employee following this practice for one year, the state would compensate him for over 100 non-working hours. This is equivalent to nearly three weeks' vacation.

The practice of leaving early was authorized by an unwritten policy of the State Auditor's Office. The State Auditor stated that employees were informed that the accepted practice in the office was for an employee to leave work 15 minutes before noon and 15 minutes before 5:00 P.M., for the convenience of the employees in order to avoid heavy traffic when going home. He further stated, however, that the employees were expected to report for work 15 minutes early in each instance to offset the early departure.

State employees should be compensated for the time worked. However, we question a system which allows employees to be paid for hours not worked. The State Auditor's Office should establish procedures to insure that its employees work the number of hours for which they are compensated.

RECOMMENDATION

We recommend that the State Auditor require his employees to work the full number of hours for which they are compensated.

TRAVEL

Travel expenses for the 1971-72 fiscal year totaled \$20,575. The following schedule shows a breakdown of these expenses by program as recorded by the State Auditor's Office.

| <u>Program</u> | <u>Amount</u> |
|-------------------------------|-----------------|
| Fiscal Management and Control | \$ -0- |
| Insurance | 6,000 |
| Investment | 436 |
| Administrative Services | 635 |
| Fire Marshal | <u>13,504</u> |
| Total | <u>\$20,575</u> |

Our review disclosed that the State Auditor's Office can improve its internal control over travel and reduce costs, as discussed in the following comments.

Internal Control of Travel

The State Auditor's Office can improve the internal control over travel by:

1. Requiring prior written authorization.
2. Preparing the travel claims as required by statute.
3. Reviewing the mileage claimed for reasonableness.

Prior written authorization of travel is necessary to assure management that the travel expenses incurred have been properly approved, trips by more than one employee to the same location are coordinated, and the trips are of a business nature. Prior authorization should also indicate the estimated cost so that the personnel responsible for accounting and budgeting can (1) compare the estimated costs with the operating budget, (2) obtain assurance that the actual expenses incurred were approved, and (3) compare and analyze major differences between the estimated and actual travel expenses.

Prior authorization of travel also provides management the opportunity to select the least expensive mode or method of travel. For example, we noted several occasions where an employee traveling out of state drove to

Bozeman at state expense and flew from Bozeman to the out-of-state destination. The determination as to whether it was more economical to fly directly out of Helena was never made. We were advised by airline officials that the difference in the cost of the flight, whether boarding at Helena or Bozeman, would be insignificant. Therefore, the employee's time and travel costs paid from Helena to Bozeman, plus the flight cost from Bozeman, would probably exceed the cost of flying directly from Helena. If prior authorization were required, these differences could be determined and the least expensive mode or method of transportation could be selected as required by Management Memo 70-22.

Section 59-540, R.C.M. 1947, requires that travel expenses claimed by an employee "shall show expense items of each day in detail, such as the amount of per diem allowance claimed, transportation fare, mileage and other such items." On several claims the total mileage for the trip was shown, rather than showing the daily mileage driven. In addition, the State Auditor's Office did not use the standard highway map to verify the reasonableness of the mileage claimed. The following schedule shows for a few examples a comparison between the miles per the standard highway map and the mileage claimed.

COMPARISON OF MILEAGE DRIVEN PER TRAVEL CLAIM
AND STANDARD HIGHWAY MAP

| <u>Destination</u> | <u>Mileage Per Claim</u> | <u>Mileage Per Map</u> | <u>Difference</u> |
|--|------------------------------|----------------------------|-------------------|
| 1. Helena-Virginia City- Bozeman and return | 512 | 284 | 228 |
| 2. Helena-West Yellowstone- Dillon and return | 554 | 448 | 106 |
| 3. Helena-Butte-Bozeman and return | 364 | 242 | 122 |
| 4. Bozeman-Great Falls and return to Helena | 540 | 277 | 263 |

We recognize that an employee in a travel status may use his vehicle for vicinity travel at the point of destination. However, the mileage claimed should be reviewed for reasonableness and items such as shown above should be explained on the travel claim.

RECOMMENDATION

We recommend that the State Auditor's Office:

- 1. Require prior written authorization for employees' travel.*
- 2. Require the revised travel claim to be properly completed to show the nature and purpose of the trips.*
- 3. Verify the validity and reasonableness of the expense claimed.*

Utilization of Permanently Assigned Vehicle

The State Auditor's Office has one vehicle on permanent assignment from the motor pool for use primarily by the State Auditor and, on occasion, by members of his staff. The need for permanent assignment of this vehicle is questionable because of the limited use and the type of use.

The State Auditor was provided a permanently assigned vehicle in April 1972, for "investigative purposes." The motor pool regulations provide the following definition: "A permanent assignment is for the continuous use of the vehicle because of the nature of the individual's work assignment and/or the equipment installed in the vehicle." As shown in the following schedule, during the first six months of 1972-73, the vehicle was most frequently used in the Helena area and only on occasion for out of town trips.

SUMMARY OF VEHICLE UTILIZATION
BY DAYS AND BY MILES

| Month | Days Used | | | Miles Used | | |
|----------------|-----------|-------------|-----------|------------|--------------|--------------|
| | In Helena | Out of Town | Total | In Helena | Out of Town | Total |
| July 1972 | 10 | 5 | 15 | 61 | 935 | 996 |
| August 1972 | 18 | 6 | 24 | 106 | 1,246 | 1,352 |
| September 1972 | 4 | 6 | 10 | 23 | 1,300 | 1,323 |
| October 1972 | 11 | 6 | 17 | 73 | 949 | 1,022 |
| November 1972 | 12 | 3 | 15 | 85 | 470 | 555 |
| December 1972 | <u>5</u> | <u>2</u> | <u>7</u> | <u>35</u> | <u>500</u> | <u>535</u> |
| Total | <u>60</u> | <u>28</u> | <u>88</u> | <u>383</u> | <u>5,400</u> | <u>5,783</u> |

Over the six-month period, the vehicle was used in the Helena area over 68 percent of the time, during which it was driven an average of only 6.4 miles per day, which consisted primarily of commuting. The 28 days the vehicle was out of town consisted of only 17 trips during the six-month period. This limited use does not justify the permanent assignment of a vehicle.

We were advised that sometimes, because of the nature of the insurance and investment work performed by the State Auditor's Office, emergencies arise and a vehicle is needed immediately. On these occasions, which apparently happen infrequently, the employees could use their privately-owned vehicle and receive reimbursement. In addition, the State Motor Pool Division has recently established a pool dispatch center located across the street from the Capitol Building. This should further help the State Auditor's Office fill its transportation needs.

RECOMMENDATION

We recommend that the State Auditor's Office review the need for its permanently assigned motor pool vehicle.

Travel Expenses Incurred by Fire Marshal Personnel

The information on travel claims submitted by employees of the Fire Marshal's Office was often not supported by other documented information. We noted numerous trips during the three fiscal years ended June 30, 1972, where such instances occurred. When employees travel extensively, the nature of the travel should be documented to illustrate the nature of the travel. This is especially so where employees usually travel alone.

We further noted that one employee made gasoline purchases for trips in a state-owned vehicle on numerous occasions for which he claimed no per diem. Normally employees claim per diem as well as transportation costs when they travel on state business. The employee maintains a log of the time and places to which he travels. However, the log was blank for the days in question. The instances took place during the 1969-70 and 1970-71 fiscal years. The employee maintains a residence in Bozeman but works out of his Helena office. During 1969-70 and 1970-71, the employee was assigned a state automobile on a permanent basis. We noted 45 instances during this period when gasoline purchases paid for by the State Auditor's Office were made at locations outside of Helena, primarily in Bozeman, even though no per diem was claimed for the applicable dates. The trips were generally on or around weekends and no documentation was available to show that state business was conducted.

We discussed the trips with the employee, the State Auditor, and the Department of Justice, where the employee now works. The employee agreed that he utilized the state-owned vehicle for trips to Bozeman on the weekends but that state business was usually conducted. He subsequently prepared a detail schedule, based on recall and extensive research, which he states supports the business nature of the trips in question. We did not attempt to verify the supporting statements.

The employee further stated, and the State Auditor confirmed, that the State Auditor had verbally established a policy that he could take the car to Bozeman on weekends because the employee was on call 24 hours a day. The employee is now using his privately-owned vehicle and does not charge the state mileage for weekend trips to Bozeman unless the travel is of a business nature.

The policy and justification for authorizing use of the car for weekend trips to Bozeman should have been documented in writing. This, combined with an adequately maintained log as discussed above, would demonstrate the need for, and benefits of, the practices. The above described situations illustrate the need for such documentation. Any similar unusual condition of employment should be documented for both the employee and state's benefit.

RECOMMENDATION

We recommend that the State Auditor's Office:

- 1. Document in writing any special conditions of employment.*
- 2. Require its employees to maintain a written record supporting their trips on state business.*

MICROFILMING

The State Auditor's Office has invested approximately \$6,000 in micro-filming equipment since 1965. Since purchasing this equipment, various documents, records, and reports have been microfilmed without establishing bases, standards, or measurable criteria. Our review of the office's micro-filming activities shows a questionable need for the operation in many instances.

The State Auditor's Office microfilms the following documents:

1. Paid Warrants - Warrants issued to pay for the operations of state government, including payroll.

2. Warrant registers which are numerical listings of all warrants issued.
3. Official treasurer's receipts (duplicate copies).
4. Applications for gas tax refunds.
5. Central payroll records (individual employee records).
6. Insurance premium tax statements.
7. Appropriation ledgers.
8. Trial balances.

We were advised that paid warrants, warrant registers, and treasurer's receipts are filmed because the State Auditor's Office is charged with retaining "permanent records." Section 79-101, paragraph 4, states in part that the State Auditor "shall keep an account of all warrants drawn upon the treasurer and such other account and appropriation records that he determines to be essential" Because of this law and acute shortage of storage space, the State Auditor's Office microfilms paid warrants 13 months after issue. The warrants, retained for one more year, are then destroyed. This comprises the evidence that the state paid its obligations. The State Auditor's Office should consider the length of time necessary for retaining these documents, for it may be more economical to store rather than microfilm the paid warrants and warrant registers.

We can see no need to microfilm the duplicate copy of the treasurer's receipt since the Treasurer's Office retains the original receipt. In addition, under the new statewide accounting system, a different form known as a "Collection Report" serves as the basis for recording receipts.

Department of Revenue applications for gasoline tax refunds are filmed and stored by the State Auditor's Office. We were advised that prior to use of data processing equipment, this record was the source document for

typing and issuing refund warrants. Department of Revenue officials stated they were not aware of any law or policy that required them to send the application for refund to the State Auditor for filming and storage. Once the statute of limitations passes, no reason exists to retain the record in any form.

We were told that the remainder of the items on the preceding list were microfilmed because of the lack of storage space.

The employee payroll records include employment history from the date of employment through the termination date. Continuous reels are used to record this information, which make access to the records difficult to review or to change an employee's status. A card type record would be better for this type of filming. Although a card system is more expensive, the best method should be used if the record is important enough to microfilm.

The microfilmed premium tax statements are not used by program personnel so no need exists to retain any record of these statements after four years. Office personnel could offer no reason for microfilming trial balances, since hard copies are retained.

The microfilming of the payroll records, premium tax statements, and the trial balances has not been accomplished on a current basis. For example, the last payroll record and trial balance filmed were dated in September 1969, and June 1967. We were advised that this resulted due to insufficient resources to purchase and process the film.

Studies conducted by other states and the Federal Government indicate that microfilming may not be the most economical means of retaining records. A study conducted in one state concluded that using office space to store hard copies is less expensive than microfilming for record retention up to

the first seven years, and using a record retention center may be less expensive than microfilming up to a period of 40 years. Another publication states that "If the only reason to microfilm is to save space - be careful . . . Industry studies have shown that records can be kept 12-15 years before meeting the cost of microfilm on an overall basis - average retention is 7-10 years for the majority of records."

This is not to suggest a criteria for microfilming, but to emphasize the need for planning and to demonstrate that microfilming is only a means to an end in a records management and retention system.

The Legislature has directed the State Department of Administration to "establish and administer a records management program for the efficient creation, utilization, maintenance, retention, preservation, and disposal of state records, etc." The Legislature provided appropriations to the Department of Administration for the 1973-75 biennium to establish a records management program. We were advised that the department plans to establish a records management center, including a microfilming service for state agencies. In this regard, we noted that the budget justification for this program included the purchase of several pieces of microfilming equipment. We believe that the department should consider utilizing the equipment in the State Auditor's Office. In addition, we pointed out in a recent report that the Superintendent of Public Instruction Office had about \$4,800 invested in microfilming equipment, which could be utilized before new equipment is purchased.

Since by statute the Department of Administration is responsible for establishing and administering a records management program, the State Auditor's Office should consult with the Department of Administration to establish a basis or criteria to determine what types of records, reports, and documents should be microfilmed.

The implementation of a centralized records retention program and microfilming operation should increase the utilization of equipment, create a more efficient operation, and eliminate the arbitrary selection of documents to be microfilmed.

RECOMMENDATION

We recommend that the State Auditor's Office consult with the Department of Administration to:

- (a) Establish a basis for identifying the types of records, etc., that should be retained and/or microfilmed.*
- (b) Consider transferring the microfilming equipment and record retention operation to the Department of Administration under the control of the records management program.*

CONCLUSION

We have reviewed the comments and recommendations contained in this report with the State Auditor. The cooperation and assistance provided to us by him and his staff is sincerely appreciated.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett
Legislative Auditor

September 21, 1973

ALL FUNDS

June 30, 1972

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OFFICE OF THE STATE AUDITOR
ALL FUNDS
STATEMENT OF CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 1972

| | General Fund | Earmarked Revenue Fund (Ex. B-1) | Federal and Private Revenue Fund | Federal and Private Grant Clearance Fund (Ex. B-2) | Revolving Fund | Agency Fund |
|---|--------------|-------------------------------------|----------------------------------|---|----------------|-------------|
| Fund Balance, July 1, 1971 | \$ 1,766 | \$1,050,000 | \$ -0- | \$ 25,321 | \$ 2,282,150 | \$26,213 |
| Additions: | | | | | | |
| 1971-72 Appropriations | 466,100 | -- | -- | -- | -- | -- |
| Transfers from Other State Agencies | -- | -- | -- | -- | 71,405,624 | 36,699 |
| Interfund Transfers | -- | 1,050,000 | -- | -- | -- | -- |
| Receipts | -- | -- | -- | 8,184,819 | -- | -- |
| Emergency Employment Grants | -- | -- | 11,855 | -- | -- | -- |
| Veterans' Home Reimbursements | -- | -- | 71,596 | -- | -- | -- |
| Cancelled Warrants | -- | 7,311 | -- | -- | -- | -- |
| Total Balance and Additions | 467,866 | 2,107,311 | 83,451 | 8,210,140 | 73,687,774 | 62,912 |
| Deductions: | | | | | | |
| Appropriation Expenditures (Exhibit D) | 459,888 | -- | 11,591 | -- | 70,776 | -- |
| Distribution to Counties | -- | -- | -- | 1,920,943 | -- | -- |
| Distribution to Other Funds | -- | -- | -- | 6,245,748 | -- | -- |
| Deposit to Veterans' Home Account | -- | -- | 71,596 | -- | -- | -- |
| Refunds | -- | -- | -- | 13,077 | -- | -- |
| Other Expenditures: | | | | | | |
| Distributed to Police | -- | -- | -- | -- | -- | -- |
| Pension Funds | -- | 398,384 | -- | -- | -- | -- |
| Distributed to Firemen's | -- | -- | -- | -- | -- | -- |
| Pension Funds | -- | 453,780 | -- | -- | -- | -- |
| Transfer to General Fund | -- | 204,947 | -- | -- | -- | -- |
| Payroll Expenditures | -- | -- | -- | -- | 71,759,035 | 36,676 |
| Prior Year Appropriation | -- | -- | -- | -- | -- | -- |
| Reversion | 24 | -- | -- | -- | -- | -- |
| Fund Balance, June 30, 1972 | \$ 7,954 | \$1,050,200 | \$ 264 | \$ 30,372 | \$ 1,857,963 | \$26,236 |

OFFICE OF THE STATE AUDITOR
EARMARKED REVENUE FUND
STATEMENT OF CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 1972

| | <u>Police Account</u> | <u>Firemen's Disability Account</u> | <u>Total</u> |
|---|---------------------------|---|--------------------|
| Fund Balance, July 1, 1971 | \$ 500,000 | \$ 550,000 | \$1,050,000 |
| Additions: | | | |
| Transfers from Uncleared Collections Account | 500,000 | 550,000 | 1,050,000 |
| Cancelled Warrants | <u>6,997</u> | <u>314</u> | <u>7,311</u> |
| Total Balance and Additions | 1,006,997 | 1,100,314 | 2,107,311 |
| Deductions: | | | |
| Distribution to Police and Firemen's Pension Funds | 398,384 | 394,944 | 793,328 |
| Distribution to Volunteer Fire- men's Compensation Account | -- | 58,836 | 58,836 |
| Transfer to General Fund | <u>108,613</u> | <u>96,334</u> | <u>204,947</u> |
| Fund Balance, June 30, 1972 | <u>\$ 500,000</u> | <u>\$ 550,200</u> | <u>\$1,050,200</u> |

OFFICE OF THE STATE AUDITOR
 FEDERAL AND PRIVATE GRANT CLEARANCE FUND
STATEMENT OF CHANGES IN FUND BALANCE
 Fiscal Year Ended June 30, 1972

| | <u>Forest Service Account</u> | <u>Uncleared Collections Account</u> | <u>Total</u> |
|--|---------------------------------------|--|------------------|
| Fund Balance, July 1, 1971 | \$ -- | \$ 25,321 | \$ 25,321 |
| Additions: | | | |
| Receipts | <u>1,920,943</u> | <u>6,263,876</u> | <u>8,184,819</u> |
| Total Balance and Receipts | 1,920,943 | 6,289,197 | 8,210,140 |
| Deductions: (Exhibit C) | | | |
| Distribution to Counties | 1,920,943 | -- | 1,920,943 |
| Transfer to Police Earmarked Revenue Account | -- | 500,000 | 500,000 |
| Transfer to Firemen's Earmarked Revenue Account | -- | 550,000 | 550,000 |
| Transfer to General Fund | -- | 5,195,748 | 5,195,748 |
| Refunds | <u>--</u> | <u>13,077</u> | <u>13,077</u> |
| Fund Balance, June 30, 1972 | <u>\$ --</u> | <u>\$ 30,372</u> | <u>\$ 30,372</u> |

OFFICE OF THE STATE AUDITOR
FEDERAL AND PRIVATE GRANT CLEARANCE FUND
STATEMENT OF DISTRIBUTION AS REVENUE TO ACCOUNTS
Fiscal Year Ended June 30, 1972

| Description of Revenue | General Fund | Police Earmarked Revenue Account | Firemen's Disability Earmarked Revenue Account | Counties | Total |
|---|-----------------|---|--|-------------|-------------|
| Insurance License Fees: | | | | | |
| Life and Disability Agents | \$ 38,815 | \$ -- | \$ -- | \$ -- | \$ 38,815 |
| Appointments (other than life) | 42,770 | -- | -- | -- | 42,770 |
| Agents' Qualification Exam | 9,069 | -- | -- | -- | 9,069 |
| Nonresident | 6,054 | -- | -- | -- | 6,054 |
| Solicitors & Adjusters; Temporary, Fraternal; Surplus Line and other Agents | 5,859 | -- | -- | -- | 5,859 |
| Miscellaneous | 3,508 | -- | -- | -- | 3,508 |
| Subtotal | 106,075 | -- | -- | -- | 106,075 |
| Insurance Company Fee: | | | | | |
| Certificates of Authority | 232,420 | -- | -- | -- | 232,420 |
| Filing Annual Statements | 20,100 | -- | -- | -- | 20,100 |
| Filing First Papers | 12,155 | -- | -- | -- | 12,155 |
| Miscellaneous | 2,456 | -- | -- | -- | 2,456 |
| Subtotal | 267,131 | -- | -- | -- | 267,131 |
| Insurance Taxes: | | | | | |
| Fire Marshal | 129,231 | -- | -- | -- | 129,231 |
| Property & Casualty & Miscellaneous Premium | 1,870,850 | 500,000 | 550,000 | -- | 2,920,850 |
| Life and Disability Premium | 2,665,545 | -- | -- | -- | 2,665,545 |
| Retaliation Tax | 26,119 | -- | -- | -- | 26,119 |
| Marine Premium Tax | 351 | -- | -- | -- | 351 |
| Miscellaneous | 448 | -- | -- | -- | 448 |
| Subtotal | 4,692,544 | 500,000 | 550,000 | -- | 5,742,544 |
| Investment Fees and Licenses: | | | | | |
| Issuers | 99,385 | -- | -- | -- | 99,385 |
| Broker-Dealers | 14,500 | -- | -- | -- | 14,500 |
| Salesman | 10,300 | -- | -- | -- | 10,300 |
| Investment Advisors | 700 | -- | -- | -- | 700 |
| Filing Fees and Miscellaneous | 3,420 | -- | -- | -- | 3,420 |
| Subtotal | 128,305 | -- | -- | -- | 128,305 |
| Powder Magazine Fees | 1,401 | -- | -- | -- | 1,401 |
| Grants from Forest Service | -- | -- | -- | 1,920,943 | 1,920,943 |
| Other | 290 | -- | -- | -- | 290 |
| Total | \$5,195,746 | \$500,000 | \$550,000 | \$1,920,943 | \$8,166,689 |

OFFICE OF THE STATE AUDITOR
GENERAL, REVOLVING, AND FEDERAL AND PRIVATE REVENUE FUNDS
STATEMENT OF EXPENDITURES COMPARED TO APPROPRIATIONS
Fiscal Year Ended June 30, 1972

| Program | Carryover Balance From 1970-71 | 1971-72 Appropriations | Budget Amendments | Total Available | Expenditures | Reversion | Balance |
|-------------------------------------|--------------------------------------|---------------------------|----------------------|--------------------|--------------|-----------|---------|
| Management and Control: | | | | | | | |
| General Fund | \$ -- | \$145,200 | \$ -- | \$145,200 | \$144,137 | \$ -- | \$1,063 |
| Revolving Fund | -- | 51,300 | 18,600 | 69,900 | 69,900 | -- | -- |
| Federal & Private Revenue Fund | -- | -- | 13,282 | 13,282 | 11,591 | -- | 1,691 |
| Subtotal | -- | 196,500 | 31,882 | 228,382 | 225,628 | -- | 2,754 |
| Fire Marshal: | | | | | | | |
| General Fund | -- | 96,000 | -- | 96,000 | 91,846 | -- | 4,154 |
| Administrative Services: | | | | | | | |
| General Fund | -- | 52,700 | -- | 52,700 | 52,062 | -- | 638 |
| Insurance: | | | | | | | |
| General Fund | -- | 139,200 | -- | 139,200 | 137,565 | -- | 1,635 |
| Investment: | | | | | | | |
| General Fund | -- | 33,000 | -- | 33,000 | 32,536 | -- | 464 |
| Operation and Capital: | | | | | | | |
| General Fund | 1,766 | -- | -- | 1,766 | 1,742 | 24 | -- |
| Revolving Fund | 876 | -- | -- | 876 | 876 | -- | -- |
| Total | \$2,642 | \$517,400 | \$31,882 | \$551,924 | \$542,255 | \$ 24 | \$9,645 |
| Summary By Fund | | | | | | | |
| General Fund | \$1,766 | \$466,100 | \$ -- | \$467,866 | \$459,888 | \$ 24 | \$7,954 |
| Revolving Fund | 876 | 51,300 | 18,600 | 70,776 | 70,776 | -- | -- |
| Federal and Private Revenue Fund | -- | -- | 13,282 | 13,282 | 11,591 | -- | 1,691 |
| Total | \$2,642 | \$517,400 | \$31,882 | \$551,924 | \$542,255 | \$ 24 | \$9,645 |

AGENCY REPLY



STATE OF MONTANA

OFFICE OF
E. V. "SONNY" OMHOLT

STATE AUDITOR
COMMISSIONER OF INSURANCE
INVESTMENT COMMISSIONER
CENTRAL PAYROLL SYSTEM
STATE FIRE MARSHAL

HELENA, MONTANA 59601

September 21, 1973

RECEIVED

SEP 21 1973

MONTANA LEGISLATIVE AUDITOR

Mr. Morris L. Brusett
Legislative Auditor
State of Montana
State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

In response to your letter of September 13, enclosing audit report, my comments to the recommendations are as follows:

PAGE 6.

1. This is being done.
2. This is being done.
3. Under review.

PAGE 8.

1. Good suggestion. Will implement, subject to manpower resources.
2. Will be done.

PAGE 10.

1. Is being accomplished.
2. Is being done.
3. Is being done.
4. Is being done.

PAGE 11

1. Has been done.
2. Will be done.

PAGE 14

1. Ties in with Page 8, recommendations 1 and 2 - is being implemented.

PAGE 15

1. Has been done.
2. We are documenting these procedures.

PAGE 16

2. Has been done.
3. Will be done.

BOTTOM OF PAGE 16

Will be done.

PAGE 17

Will be taken under advisement.

PAGE 18

The mechanics of this recommendation are being worked out.

PAGE 21.

Good suggestion. Will be implemented subject to manpower resources.

PAGE 22

Will be done.

PAGE 24

1. Will be done.
2. Will be done.

PAGE 25

1. Has been accomplished.
2. Has been done.

PAGE 26

We agree.

PAGE 29

1. Is being done.
2. Will be studied.

PAGE 30

Will be implemented.

PAGE 31

Has been taken care of.

PAGE 34

1. Has been done.
2. Has been done.
3. Has been done.

PAGE 35

Is being studied.


PAGE 37

1. No special conditions for employment now exist.
2. Is being done.

PAGE 41

- (a) Is being accomplished.
- (b) Is being studied.

Very truly yours,



E. V. "SONNY" OMHOLT
State Auditor & Ex Officio
Commissioner of Insurance

EVO:hr

